

127 FERC ¶ 61,156
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Suedeem G. Kelly, Marc Spitzer,
and Philip D. Moeller.

California Independent System Operator
Corporation

Docket No. ER09-241-001

ORDER ON COMPLIANCE FILING

(Issued May 21, 2009)

1. In this order, we conditionally accept for filing revised tariff sheets submitted by the California Independent System Operator Corporation (CAISO) as satisfactorily complying with the directives in the Price Cap Order¹ effective March 31, 2009, subject to modification in further compliance filings. These revised tariff sheets permit the CAISO to delay posting settlement prices that meet or exceed the price cap and floor until further verification and/or correction.

I. Background

2. In the Price Cap Order, the Commission conditionally accepted the CAISO's proposal to adopt a price cap of \$2,500 per MWh and a price floor of negative \$2,500 per MWh for locational marginal prices, residual unit commitment prices, and ancillary services marginal prices in all Market Redesign and Technology Upgrade (MRTU) markets to prevent severe settlement impacts stemming from extreme prices that could result from the CAISO's transition into the MRTU market.² Further, the Commission directed the CAISO to submit a compliance filing implementing a sunset date for the price cap and floor that is twelve months after the effective date of MRTU,³ and accepted the CAISO's commitment to conduct a stakeholder process to determine the specific criteria it

¹ *Cal. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,082 (2009) (Price Cap Order).

² *Id.* P 2.

³ *Id.* P 40.

will use to delay the publication of settlement prices that may be subject to revision under the price cap and floor tariff provisions and file the resulting tariff revisions for Commission review.⁴ In addition, the Commission directed the CAISO to release, in non-aggregated form, all prices that exceed the price cap and floor to market participants.⁵

II. The CAISO Compliance Filing

3. On March 2, 2009, the CAISO submitted revised tariff sheets to comply with the directives of the Price Cap Order, indicating that: (1) the CAISO will delay the posting of certain prices when there is an indication that they may not be correct; (2) the CAISO will include all prices that exceed the price cap and floor in its weekly price correction reports; and (3) the price cap and floor provisions will terminate on March 31, 2010.⁶

III. Notice of Filing, Motions to Intervene, and Responsive Pleadings

4. Notice of the CAISO filing was published in the *Federal Register*, 74 Fed. Reg. 11,938 (2009), with interventions, comments, and protests due on or before March 23, 2009. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2008), the filing of timely, unopposed motions to intervene serve to make the movants parties to the proceeding.

5. The following parties submitted comments and/or protests along with their motions to intervene: Southern California Edison Company (SoCal Edison), Pacific Gas & Electric Company (PG&E), Western Power Trading Forum (WPTF), and Powerex Corp. (Powerex). On March 27, 2009, PG&E filed additional comments stating that PG&E no longer has objections to the CAISO's compliance filing. We accept PG&E's superseding comments.

IV. Discussion

A. Need for the Price Screens

6. The CAISO states that it conducted a stakeholder process and developed a proposal to delay the publication of settlement prices above the price cap and floor, as well as prices that have a significant chance of revision identified through

⁴ *Id.* P 54.

⁵ *Id.* P 53.

⁶ Tariff section 27.1.3.

the use of six price screens.⁷ The CAISO explains that improper data input, hardware or software failure, or a result that is inconsistent with the CAISO tariff are reasons that prices (other than prices exceeding the price cap and floor) may need to be corrected. Accordingly, the CAISO proposes to modify tariff sections 27.1.3, 35.1, and 35.2 to delay posting prices when there is an indication that the prices may be revised.

Protests and Comments

7. WPTF states that the CAISO's price screens are beyond the scope of compliance with the Price Cap Order. WPTF argues that the CAISO will delay publication of additional prices that are within the screening thresholds when prices exceed the screening parameters based on results received during pre-production testing.⁸ WPTF contends that the CAISO's proposal to block prices does not ensure that posted prices are correct.

8. WPTF states that the CAISO has not provided an automated process to identify prices to be delayed from publication, and as a result, during MRTU market simulations, scheduling coordinators' market interface and shadow settlement systems have not been able to distinguish blocked prices from a general failure of the software to solve for a market clearing price. In addition, WPTF claims that the CAISO did not offer a comment period for stakeholders to express their preferences.⁹ Consequently, WPTF requests that the CAISO's proposal to

⁷ See CAISO Transmittal Letter at 3. The CAISO proposes to delay publishing prices for up to 48 hours if any one of the criteria for the following six price screens are met: (1) System Marginal Energy Cost exceeds \$500 per MWh or is less than negative \$30 per MWh; (2) Default Load Aggregation Point Locational Marginal Price exceeds \$750 per MWh or is less than negative \$45 per MWh; (3) System Marginal Energy Cost component of Residual Unit Commitment prices exceeds \$250 per MW or is less than \$0 per MW; (4) Ancillary Service Marginal Price for a product exceeds \$500 per MW or is less than \$0; (5) any nodal Locational Marginal Price that exceeds \$1000 per MWh or is less than negative \$60 per MWh; or (6) any Residual Unit Commitment price that exceeds \$500 per MWh or is less than \$0 per MWh.

⁸ For example, WPTF states that the CAISO will delay publishing prices on all pricing points if any Default Load Aggregation Point Prices fail the screening parameters, and the CAISO will delay the publication of all ancillary service prices if any ancillary service price in any region fails the screen. See WPTF Comments at 5.

⁹ WPTF notes that the CAISO presented the screens at a February 19, 2009

adopt the price screens not be implemented until the CAISO and market participants agree on a process for implementing the Commission's directive.

Commission Determination

9. We conditionally accept the CAISO's proposal to delay for up to 48 hours the publication of market clearing prices in the settlement process that are subject to revision under the price cap and floor tariff provisions. Because the compliance obligations in our prior order are broad, we cannot agree with WPTF that the CAISO's proposal is beyond the scope of the Commission's compliance directive. However, we reject without prejudice the CAISO's proposal to implement the additional six price screens. In the Price Cap Order, the Commission explained that releasing market clearing prices that are likely to be revised "could create uncertainty about which prices should be used for settlement purposes."¹⁰ While we recognize that there will always be a tension between transparency and accuracy of market clearing prices, it is unclear that the CAISO's proposal strikes a reasonable balance between these competing objectives. The CAISO has not demonstrated that additional price screens accurately identify prices that are subject to revision and has not justified the price screens and the basis for the price screening thresholds. The CAISO has also failed to explain how often the proposed price screens will result in delaying the publication of market clearing prices and how market participants might be impacted by such a process. Further, the proposed tariff provisions do not limit the CAISO's discretion to expand the price screening process going forward. For these reasons we find the new provisions are overly vague, unsupported, and could produce unjust and unreasonable results. Accordingly, we direct the CAISO to modify tariff sections 27.1.3, 35.1 and 35.2 in a further compliance filing, within 30 days of the date of this order, to reflect that the CAISO will delay the publication of only those market clearing prices that exceed the price cap and floor.

B. Release of Pricing Information

10. The CAISO proposes to revise tariff section 27.1.3 to clarify that in the weekly price correction report, it will publish at a non-aggregated level all prices that exceed the minimum and maximum prices, even though the Price Cap Order did not require changes to the tariff.

MRTU Quality of Solution Review Meeting; however, non-attending stakeholders were not notified of the proposal to adopt the screens. *Id.* at 5 n.15.

¹⁰ Price Cap Order, 126 FERC ¶ 61,082 at P 53.

Protests and Comments

11. SoCal Edison requests a higher level of transparency for corrected prices that fall within the price cap and floor levels. Specifically, SoCal Edison requests that the CAISO publish all the unadjusted market clearing prices that are corrected in a weekly price correction report and proposed some tariff modifications.

Commission Determination

12. While we agree with SoCal Edison that CAISO markets should be as transparent as practical, the Commission's rejection of the CAISO's proposal to delay publication of prices that fall within the price cap and floor range resolves the concerns raised by SoCal Edison. Therefore, we reject SoCal Edison's proposed tariff language modifications and conditionally accept for filing the CAISO's proposed tariff revision to section 27.1.3, subject to modification, effective March 31, 2009.

C. Inclusion of Price Screens in CAISO's Business Practice Manuals

13. The CAISO contends that it does not need to include details of the actual screens and thresholds in the tariff because the screens affect only the timing of posting and do not alter the existing price correction process.¹¹ However, the CAISO commits to posting the applicable threshold for each screen on its Open Access Same-Time Information System (OASIS). Prior to modifying the current price screens, the CAISO commits to issuing a market notice informing the market of the change and indicating the new price screens and when the screens will take effect.

Protests and Comments

14. WPTF argues that including the specific details of the six price screening parameters in its operating procedures is an attempt by the CAISO to avoid due process. WPTF contends that the CAISO will be able to change the levels of the screens outside of its Business Practice Manuals and Business Practice Manual Change Management Process. WPTF also contends that the proposed price screens directly affect the conditions of service. WPTF requests that the CAISO submit for Commission review the Business Practice Manual and tariff revisions needed to reflect changes in the energy settlements.

¹¹ See CAISO Transmittal Letter at 6.

Commission Determination

15. The Commission's rejection of the six proposed price screens addresses WPTF's concerns. We therefore reject WPTF's proposal to include the price screening parameters in the CAISO's tariff and Business Practice Manuals as moot.

D. Term of the Price Cap and Floor Proposal

16. The CAISO's revised tariff sheets provide that the price cap and floor terminate on March 31, 2010.

Protests and Comments

17. Powerex notes that the CAISO has not specified whether it intends to sunset the price screening process at the same time that it sunsets the price cap and floor. Powerex requests that the CAISO clarify whether it intends for the price screening mechanism to terminate on the same date as the price cap and floor.

Commission Determination

18. The CAISO has satisfactorily complied with the Commission's directive to provide a sunset date for the price cap and floor by modifying tariff section 27.1.3. The Commission's rejection of the six proposed price screens addresses Powerex's other concern about termination.

E. Miscellaneous Issues

1. Bid Cost Recovery at Interties

19. The CAISO defines bid cost recovery as the process by which the CAISO ensures scheduling coordinators are able to recover start up costs, minimum load costs, and energy bid costs.¹² In addition to other resources, the CAISO affords

¹² See Business Practice Manual Configuration Guide: Bid Cost Recovery Settlement available at <http://www.caiso.com/1b6a/1b6aa122652214.doc>.

bid cost recovery for energy and ancillary services bids to system resources scheduled or dispatched by CAISO including self-scheduled periods.¹³

Protests and Comments

20. WPTF claims that the CAISO has not provided sufficient information about the treatment of system intertie transactions when settlement prices are delayed. WPTF argues that the CAISO's settlement software may adjust prices at the interties so that imports may be ultimately paid less for the energy they offered than their bid price. WPTF notes that when the CAISO accepts a scheduling coordinator's bid to sell energy at an intertie that schedule is binding and the scheduling coordinator must comply with it. WPTF requests that the CAISO submit written information, including specific formulas, and the expected treatment of bid cost recovery under negative price conditions, confirming that all importers and exporters will be afforded appropriate bid cost recovery.

21. Powerex argues that it is not clear from the CAISO's compliance filing how the proposed screening process will affect payments to a scheduling coordinator selling non-dynamic energy at an intertie where prices are eventually adjusted.¹⁴ Powerex points out that most resources in that circumstance would be assured of receiving at least their bid costs under the CAISO's bid cost recovery mechanism.¹⁵ However, Powerex states that the tariff specifically denies bid cost recovery to non-dynamic system resources that do not have telemetry.¹⁶ Powerex

¹³ See Tariff Appendix A. A system resource is defined as a single resource, or a portion of a resource, located outside of the CAISO balancing authority area, that is either a static interchange schedule or directly responsive to automatic generation control capable of providing energy and/or ancillary services to the CAISO balancing authority area.

¹⁴ See Tariff Appendix A. A non-dynamic system resource is defined as a system resource that is not capable of submitting a telemetered reading or value which is updated in real time.

¹⁵ See Tariff section 11.8.

¹⁶ See Tariff section 4.12.3. Non-dynamic resource-specific system resources shall have the option of providing the required telemetry data by transmittal directly to the CAISO's Energy Management System (EMS) in accordance with the CAISO's standards for direct telemetry or by means of transmittal to the CAISO's EMS through the EMS of its Host Balancing Authority Area by use of the inter-control center communications protocol.

contends that the CAISO has not explained what price such non-dynamic system resources would be paid in the event that prices for the scheduling coordinator's sales at the interties are adjusted below its bids.

22. Powerex requests that the Commission require the CAISO to provide bid cost recovery for all non-dynamic system resources. Powerex asserts that the CAISO has not justified disparate treatment between these non-dynamic system resources and other types of resources, which are assured of receiving at least their bid costs in the event prices are eventually adjusted below their bids.

Commission Determination

23. WPTF and Powerex raise issues that are beyond the scope of the instant compliance filing. Under tariff section 35.2, the CAISO has existing authority to revise prices up to eight calendar days following the trading day.¹⁷ This authority to perform price corrections is not affected by this compliance filing. Similarly, we will not address in this order the issue of whether non-dynamic resources should be eligible for bid cost recovery.¹⁸ We find that the CAISO's compliance filing does not have any material impact on price certainty and cost recovery associated with intertie transactions that would warrant Commission action.

2. Hour Ahead Scheduling Processes Updates

24. The hour-ahead scheduling process provides the CAISO and scheduling coordinators the opportunity to make adjustments to day-ahead schedules in advance of real time. Except for intertie transactions, there are no financial settlements in the hour-ahead scheduling process.

Protests and Comments

25. WPTF states that under the CAISO's hour-ahead scheduling process, prices posted on its OASIS fail to update when the CAISO changes these prices. WPTF argues that without current prices, importers and exporters lack important information to support decisions about importing and exporting, which may lead to a significant reduction in the amount of energy that is imported to and exported from California. In addition, WPTF urges the Commission to require the CAISO to develop an immediate mechanism to provide hour-ahead scheduling process

¹⁷ See Tariff section 35.2.

¹⁸ See *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 509 (2006).

price updates and to automate price updates through its normal processes no later than four months after MRTU go-live.

Commission Determination

26. We agree with WPTF that hour-ahead scheduling process prices posted on OASIS, like other prices released by the CAISO to OASIS, should be updated when the CAISO revises prices. Accordingly, we direct the CAISO to explain whether and to what extent prices are being updated on its OASIS. Alternatively, we direct the CAISO to implement a mechanism for updating hour-ahead scheduling process prices posted on OASIS and file its proposal within 30 days of the date of this order, or explain why the implementation of such a mechanism is impractical.

The Commission orders:

(A) The CAISO's revised tariff sheets are hereby conditionally accepted, subject to modifications, effective March 31, 2009.

(B) The CAISO is hereby directed to submit, within 30 days of the date of issuance of this order, a compliance filing to modify the tariff, as discussed in the body of this order.

(C) The CAISO is directed to implement a mechanism for updating hour-ahead scheduling process prices posted on OASIS within 30 days of the date of this order, or explain why the implementation of such a mechanism is impractical.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.